



December 19, 2008

Via Electronic Transmission

The Honorable Jon T. Rymer
Inspector General
Federal Deposit Insurance Corporation
3501 Fairfax Drive, Rm. E-9070
Arlington, VA 22226

Dear Inspector General Rymer:

Thank you for meeting with my staff earlier this month. As they conveyed to you, I remain concerned about FDIC Chairwoman Bair's mortgage loan modification proposal. Specifically, a taxpayer funded recovery program like the one that she advocates should not benefit those who committed fraud. I personally expressed my concerns to the Chairwoman, and was disappointed to hear that the FDIC considers due diligence to be so burdensome as to dissuade many from using the program. The Chairwoman also noted that the program's focus on owner-occupied properties will be sufficient to avoid most of the fraud.

Over the past weeks, my staff has consulted with experts across the industry in order to better understand the extent of fraud in the mortgage market. Unfortunately, the only consensus is that fraud is pervasive, with estimates ranging from 30%-70% of all mortgages, and up to 50% of owner-occupied mortgages. Providing a benefit such as the FDIC's proposed loan modification program to those who committed fraud is bad policy.

I understand that your office is currently conducting an audit of the FDIC's existing IndyMac loan modification program. I request that you expand the scope of your work to include a fraud review on a sample of modification-eligible loans. To prove the fraud beyond a reasonable doubt in a particular loan file would require forensic analysis and a full criminal investigation and a successful prosecution. However, there are many preliminary indicators of fraud that could be used to categorize the loans by various levels of risk for the purpose of statistical analysis and extrapolation. This sort of data could prove crucial for Congress and other policymakers to obtain a realistic estimate of the level of fraud in the system.

As you conduct the review, please provide my staff with regular updates. If you have any questions about this request, please contact Jason Foster or Eben Roberts of my Committee staff at (202) 224-4515. All formal correspondence should be sent electronically in PDF format to Brian_Downey@finance-rep.senate.gov or via facsimile to (202) 228-2131.

Sincerely,

A handwritten signature in blue ink that reads "Chuck Grassley". The signature is written in a cursive, flowing style.

Charles E. Grassley
Ranking Member
Committee on Finance